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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20054

In the Matter of	)	
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)))	CC Docket No. 98-77 (FCC 98-101)

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AUG 17 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Comments of Home Telephone Company, Inc.

In response to the June 4, 1998 Notice of Proposed Rulemaking, FCC 98-101, On Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-Of-Return Local Exchange Carriers

Home Telephone Company, Inc.

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August 17, 1998

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COMMENTS
Of
HOME TELEPHONE COMPANY, INC.

I. Introduction

Home Telephone Company, Inc. (Home), a small rural local exchange carrier (LEC) operating in rural areas of the South Carolina low country, respectfully submits these comments in the above-captioned notice of proposed rulemaking (NPRM). As a small rural LEC, we are vitally concerned about the issue of access charge reform. Home derives over 50% of its operating revenues from access and universal service related sources. While Home believes that access rate reform should occur, it is crucial that access rates for LECs operating in rural areas be comparable with access rates charged in neighboring urban areas.

The telecommunications industry has long operated on the concepts of average costing and pricing. This has allowed for the delivery of high quality telecommunications services at reasonable costs to all parts of the nation. The problems created by high access rates in the rural areas are well understood and generally agreed to by most parties.[1] The high cost of access in the rural areas prevents many telecommunications providers from choosing to enter rural markets and creates incentives for large users to leave the switched network of the incumbent LEC. As competition expands in urban areas, the situation will only become worse in rural areas. Many services available in

[1] *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*, CC Docket No. 98-77, Notice of Proposed Rulemaking, FCC 98-101 (rel. June 4, 1998)(NPRM) Paras. 12 and 25.

urban areas will not be available to the general population residing in the rural areas. In addition, as large users continue to exit the switched networks of incumbent rural LECs, the access revenue loss associated with their departure will be required to be made up by increasing rates to remaining rural customers.

The continued financial viability of rural areas and the companies operating in them is dependent upon successful access charge reform, supported as necessary with universal service fund support. Successful access charge reform requires that access rates in the rural areas be comparable to those charged in urban areas.

Home's comments, therefore, are mainly directed toward those issues in the NPRM which may create rates for customers in rural areas which are higher than rates charged consumers in neighboring urban areas. This outcome would fail to correct the problems that the Commission is attempting to address in the NPRM.

II. Rate of Return (ROR) LECs Must Be Treated Differently Than Price Cap LECs

This NPRM was required because ROR LECs were excluded from the access reform proceeding and subsequent Order instituted for price cap LECs. As stated in paragraph 4 of the NPRM, "we previously determined that we would address access reform for rate-of-return LECs in a separate proceeding." The paragraph goes on to state that "access reform for the smaller, rate-of-return LECs may raise new or different issues that we did not have to address in our proceeding involving the typically larger, price cap LECs ... differences in the circumstances of rate-of-return and price cap incumbent LECs may require different approaches to reform ...." The final order in the access charge reform proceeding for ROR LECs must address the inherent differences that exist between Price Cap and ROR LECs. While recognizing the differences between price cap and non-price cap LECs[2], the NPRM, in almost every instance, seeks to apply

[2] For example, NPRM Par. 3 – longer loops, lower economies of scale; Par. 14 – smaller customer base, dependent on access revenues; Par. 16 – higher cost, few large customers.

the exact same rules adopted for the large price cap companies to the smaller rate-of-return LECs.[3]

If access reform for ROR LECs follows the measures and rules adopted for the Price Cap LECs, it appears that customers of ROR LECs will be paying much higher subscriber line charges (SLCs) for non-primary residential and multi-line business service. In addition, rural LECs will be forced to reflect unacceptably high Primary Interexchange Carrier Charges (PICCs), or alternatively, higher per minute access charge rates to interexchange carriers (IXCs) still willing to provide service to customers in their service territories. This outcome is unacceptable and is contrary to the intent of the Telecommunications Act of 1996.

III. The Act Mandates Comparable Service and Rates for Consumers in all Regions of the Nation

The Telecommunications Act of 1996 states that "Consumers in all regions of the Nation ... should have access to telecommunications and information services ... that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas."[4] This NPRM proposes rules that, if implemented, will limit rural LEC customers' choices and lead to rural customers paying higher rates for services than similarly situated urban customers.

IV. Reasonably Comparable Rates Must be Defined

The concept of comparable services is well defined in the Commission's definition of what services constitute universal service. However, the Commission must also seek a definition for what constitutes reasonably comparable rates. Home proposes that the Commission establish a standard that rates between rural and urban areas are reasonably comparable when the rates in a rural area are no greater than 105% of the rates for the same services in the closest urban area.

[3] For example NPRM Par. 35 – we should adopt rate structure modifications similar to price cap LECs; Par. 48, 54, 58, 67, 60.
[4] 47 U.S.C., Para. 254(b)(3).

Home offers this standard based on its belief that anything in excess of a 5% differential begins to create serious disadvantages in a competitive market. It is clear that Congress intended to avoid the creation of any serious disadvantages to rural areas through the creation of the Universal Service Fund. Home contends that the inherent cost differential of providing telecommunications service in rural areas versus urban areas, which would result in rural rates above a reasonably comparable standard, be recovered from the Universal Service Fund.

V. The NPRM Fails to Recognize the Important Link Between Access Charge Reform and the Need for Universal Service Support for ROR LECs

The NPRM states in paragraph 6, "This notice is not intended to address contentions that some additional costs or services should receive universal service support ...; those matters will be resolved in the Universal Service proceeding." In dealing with access charge reform issues, the Commission should not ignore the important linkage between access rate levels, universal service support, and the development of competition.

It is clear that the advent of competition, as mandated by the Act and addressed by the Commission in the first of its "trilogy of orders," leads to the need for access reform, the second part of the trilogy. Access reform is required as revenues, previously generated by pricing access above cost, cannot be sustained in a competitive market. In turn, it is clear that the Act intended to prevent harm to the rural areas when reforming access by keeping pricing "comparable" through the use of a universal service mechanism.

To attempt to resolve the issue of access charge reform for small LECs without considering the impact on universal service is dangerous to the customers of rural LECs and an abrogation of the Commission's responsibility as mandated by the Act.

In paragraph 15 of the NPRM, the Commission recognizes the critical role that access charges play in maintaining universal service in rural areas. The fact that the Commission recognizes that "Some rate-of-return LECs receive more than 50 percent of their total revenues from interstate access revenues and universal service support ..." is reason enough to ensure that these two revenue sources are considered together and issues are not punted between the two dockets and ultimately unresolved.

VI. Specific Concerns Raised by the NPRM

Home supports the need for timely reform of access for ROR LECs. Home also supports the Commission's approach of better matching costs with the underlying cost-causation. However, Home does not support the need for access reform to the extent that it creates significantly higher end user and per line access rates in rural areas. Based on data supplied to us by our cost consultants, John Staurulakis, Inc., it appears that, on average, rural customers could face non-primary line and multi-line business SLCs over 25% higher than their urban counterparts. In addition, rural customers would face the potential flow-through of PICCs by IXCs that are more than twice as high on primary line residential and single line business customers than that imposed on customers in urban areas. Rural customers would also see a PICC of over $10.00 per line on non-primary residential lines and over $14.00 per line on multi-line business lines if all costs are ultimately borne by the rural end-user. The impact on the rural economy could be devastating if such pricing discrepancies between rural and urban customers are allowed to develop.

VII. In No Case Should Rural SLC and PICC Charges be Allowed to Exceed Levels Established in Urban Areas

If rural LECs are required to reflect SLCs and PICCs significantly higher than those charged in urban areas, all but the smallest businesses would be incited to leave rural areas or at least leave the local switched network. This would only serve to increase the cost of service to remaining customers. In addition, second lines utilized by rural customers for internet access, or to keep peace in homes with teenagers, would become cost prohibitive.

The Act clearly states that consumers in the rural areas should expect reasonably comparable rates. Therefore, the SLCs assessed on rural non-primary lines and multi-line businesses and rural PICCs should not be allowed to exceed levels established for end user customers and IXCs in urban areas, based on some type of national average.

VIII. Proposal for Appropriate Access Rate Structure Modifications

In order to ensure the development of competition and to maintain comparable services and rates for the rural areas, the Commission must ensure that neither per line nor per minute of use access rates exceed nationwide averages. If per line charges are capped at some nationwide average as suggested herein, with the remainder of common line related costs recovered through minutes of use charges, this would leave per minute rates too high in rural areas and fail to appropriately reform the current access rate structure.

Home believes that the Commission should implement a mechanism whereby costs not recovered after both the SLC and PICC charges are capped at some national average, should be recovered from the universal service fund. This would allow per minute charges for access to be reduced to an appropriate level and would allow for the recovery of all additional costs from the source Congress originally intended. In order to retain the identity of these high costs and facilitate their recovery, Home proposes the creation of an Interim ROR Access Reform Pool (Interim Pool). The Interim Pool mechanism is very similar to the Long Term Support mechanism established for the recovery of interstate common line costs.

The Interim Pool would be competitively neutral and relatively simple and inexpensive to administer. The Interim Pool could be absorbed into the Universal Service Fund once final action is completed on rural USF reform, assuming the USF is both sufficient and predictable to insure recovery of these costs.

IX. Mechanics of the Interim Pool

The Interim Pool would reflect the common line costs of all ROR LECs less amounts recovered from capped SLCs, PICCs, and an appropriate level of per minute of use access charges.

Funding for the pool would be derived by dividing the total required pool dollars by total national access lines and dividing by twelve to generate a "surcharge" that will be added to the monthly PICC charges assessed to IXCs by price-cap and non price-cap companies alike. The PICC surcharge could then be reported to a pool administrator. (We suggest the National Exchange Carrier Association, which has been administrator of the national pools for years.) The pool administrator would then distribute the Interim Pool monies to the appropriate recipients.

X. Pricing Flexibility is Necessary Now in Order to Properly Meet Competitive Pressure

While Home, like most small rural LECs, does not face a current wireline competitor, we nevertheless face competition, and the continued threat of revenue erosion. We currently have five major wireless carriers operating in parts of our service territory. A study that BellSouth recently conducted in Louisiana showed that many customers consider wireless service to be a viable alternative to wireline service.[5]

In addition, many competitors operating in nearby BellSouth service areas could quickly expand to our service area to compete for larger, more lucrative customers. We also continue to lose large customers due to pricing inflexibility inherent in an overly regulated industry.

In order to be competitive and maintain our long-term viability, ROR LECs must have the flexibility necessary to meet customer needs and to begin positioning themselves to meet existing and future competitive threats. Unlike large price cap companies, rural ROR LECs cannot afford to lose a few large customers before being allowed to compete on a level playing field. We urge the Commission to quickly move to grant pricing flexibility to ROR companies.

[5] *USA Today*, July 10, 1998 – "More phone users snipping their land lines."

XI. Summary and Conclusion

Home realizes that its proposal for capping SLCs and PICCs at a nationwide average and creating an Interim Pool will likely draw criticism from some. However, the reform of access rates in rural America cannot be postponed until a final order with respect to Universal Service funding for non price-cap LECs is issued. Home, therefore, believes that its suggested approach offers the best opportunity for the most timely reform of access charges. The high costs associated with providing telecommunications services to rural areas leads us to maintain that costs in excess of nationwide averages are best recovered, in the long run, from the universal service fund. In the short run, Home believes that its Interim Pool methodology best accomplishes the objective.

Respectfully submitted,

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August 17, 1998

Home Telephone Company, Inc.
CC Docket No. 98-77

Certificate of Service

I, Carole A. Rehm, do hereby certify that on this 17th day of August, 1998, a copy of the foregoing "Comments of Home Telephone Company, Inc.," were sent via United States mail, first class postage prepaid, to the individuals listed on the attached Service List (Appendix A).

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Carole A. Rehm

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